

CITY COUNCIL OF THE CITY OF SAN JOSÉ

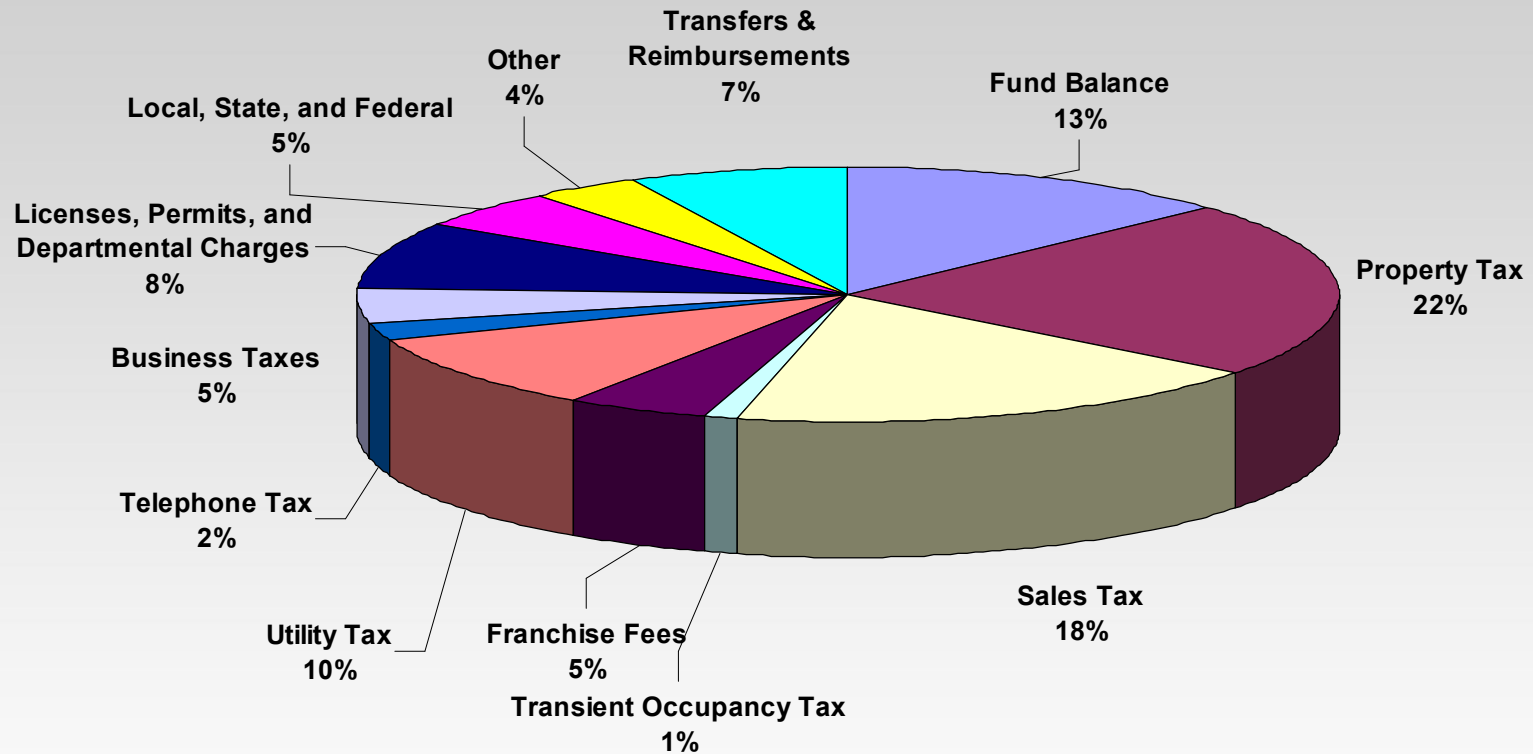
**POA Arbitration
Jennifer A. Maguire
Budget Director**

City of San José

Budget Overview

- The annual budget for the City of San José totals approximately \$2.6 billion and is divided into three categories:
 - **General Fund:** used for regular operating expenditures (such as public safety, parks, and libraries);
 - **Special Purpose Funds:** used for operations that receive direct and dedicated funding, restricted to use for a specific purpose, such as the Water Pollution Control Plant, Special Purpose Funds, and the Airport; and
 - **Capital Funds:** used for infrastructure improvements (such as transportation, airport, and parks).

2013-2014 Proposed Budget – General Fund Funding Sources



TOTAL GENERAL FUND SOURCES: \$934,008,927

2013-2014 Proposed Budget – General Fund Beginning Fund Balance

Source of Funding for 2013-2014:

Unexpended Contingency Reserve (Carryover to 2013-2014)	\$29.3 M
Unexpended Earmarked Reserves (Used in Budget Balancing Strategy)	39.6 M
2012-2013 Ending Fund Balance Reserve* (Used in Budget Balancing Strategy)	12.0 M
Expenditure Savings/Additional Revenue* (Used in Budget Balancing Strategy) (includes one-time funds: \$6.4 M SARA cash flow between 2012-13/2013-14, \$4.0 M additional vacancy savings/sales tax, \$3.5 M tobacco settlement, and \$0.5 M fund close-outs)	18.4 M
Liquidation of Prior Year Encumbrances* (Used in Budget Balancing Strategy)	2.5 M
SUB-TOTAL	\$101.8 M
Reserve for Encumbrances (Matches expenditure line item)	20.4 M
TOTAL	\$122.2 M

* Total of 3 categories = \$32.9 million; \$18.5 million assumed as ongoing in 2013-2014 Base Budget, other one-time funds generated from sources as noted above.

General Fund Ending Fund Balance History

Fund balance programmed in development of annual budget; small variances from programmed amounts

	2008-2009	2009-2010	2010-2011	2011-2012
Actual Ending Fund Balance	\$173,213	\$141,398	\$137,324	\$168,299
Estimated Ending Fund Balance (used in Annual Budget Development)	152,992	134,807	121,061	155,467
Variance to Budgeted Estimate	\$20,221	\$6,591	\$16,263	\$12,832
Required Adjustments (Development Fee Program/Rebudgets/Clean-ups)	(6,899)	(3,041)	(8,142)	(5,590)
Available Fund Balance*	\$13,322	\$3,550	\$8,121	\$7,242
Variance as % of Budget (Source & Use)	.6%	.2%	.4%	.3%

* Used for required budget rebalancing actions (e.g., sales tax drop off and higher sick leave payments upon retirement expenditures), help establish future deficit reserve for 2011-2012, and other legal obligation reserves for 2012-2013

Proposition 13

- Proposition 13 was approved by voters in 1978.

California Constitution Article 13A

Section 1. (a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

- Proposition 13 decreased property taxes by assessing property values at their 1975-1976 value and restricted annual increases of assessed value of real property to an inflation factor, not to exceed 2% per year. Properties which change ownership, properties which are substantially altered, and newly-constructed properties are assessed at the full year market value in the first year and are subject to the 2% cap thereafter.

Proposition 218

- Proposition 218 was approved by voters in 1996.

California Constitution Article 13C

Section 2. (b) “No local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote.”

Section 2. (d) “No local government may impose, extend, or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote.”

General Fund Revenue Forecasting

- Moderate revenue growth expected in 2013-2014 and all four out years of the Forecast
- Approximately 50% of revenues tied to economy (e.g., Property Tax, Sales Tax, Transient Occupancy Tax)
- Approximately 50% of revenues driven by other factors (e.g., Utility Taxes, Franchise Fees, Revenue from Other Agencies, Cost-Recovery Fees, Transfers and Reimbursements)
- Review current year performance and historical trends, economic conditions, and other drivers
- Review economic forecasts (e.g., UCLA Anderson School of Management Forecast, Beacon Economics, consulting economist)
- Consult with subject matter experts (e.g., Santa Clara County Assessor's Office, sales tax, utility)

2013-2014 Proposed Budget – General Fund Uses

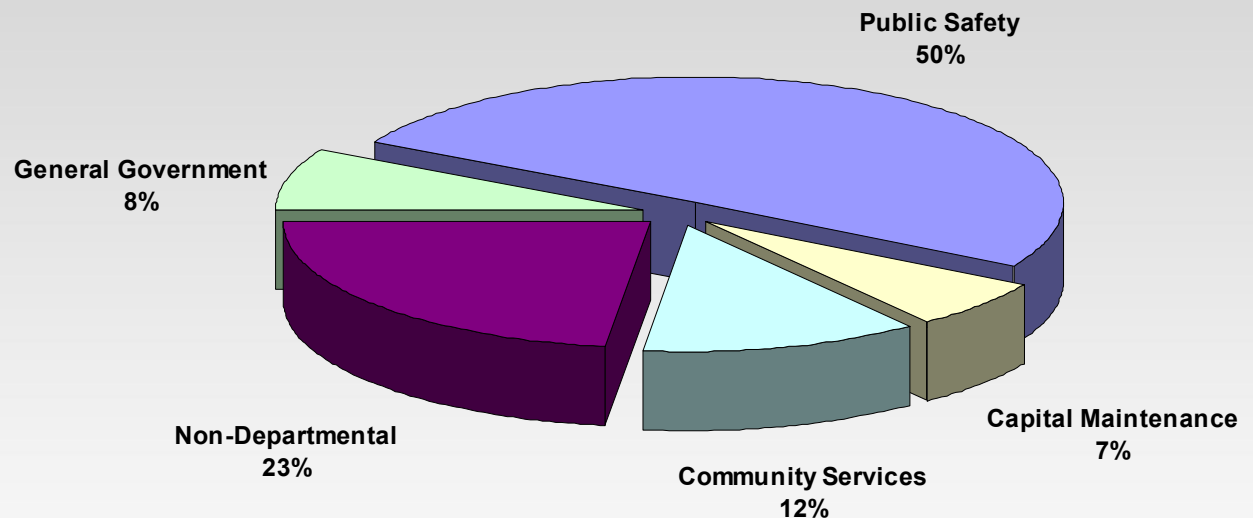
Public Safety Departments - provide for the safety of the public through crime and fire prevention and suppression efforts of the Police and Fire Departments.

Capital Maintenance Departments - provide for the construction and maintenance of the City's infrastructure by the Public Works and Transportation Departments.

Community Services Departments - provide programs that affect citizens on a daily basis, such as Parks, Recreation and Neighborhood Services, Library, and Planning, Building and Code Enforcement Departments.

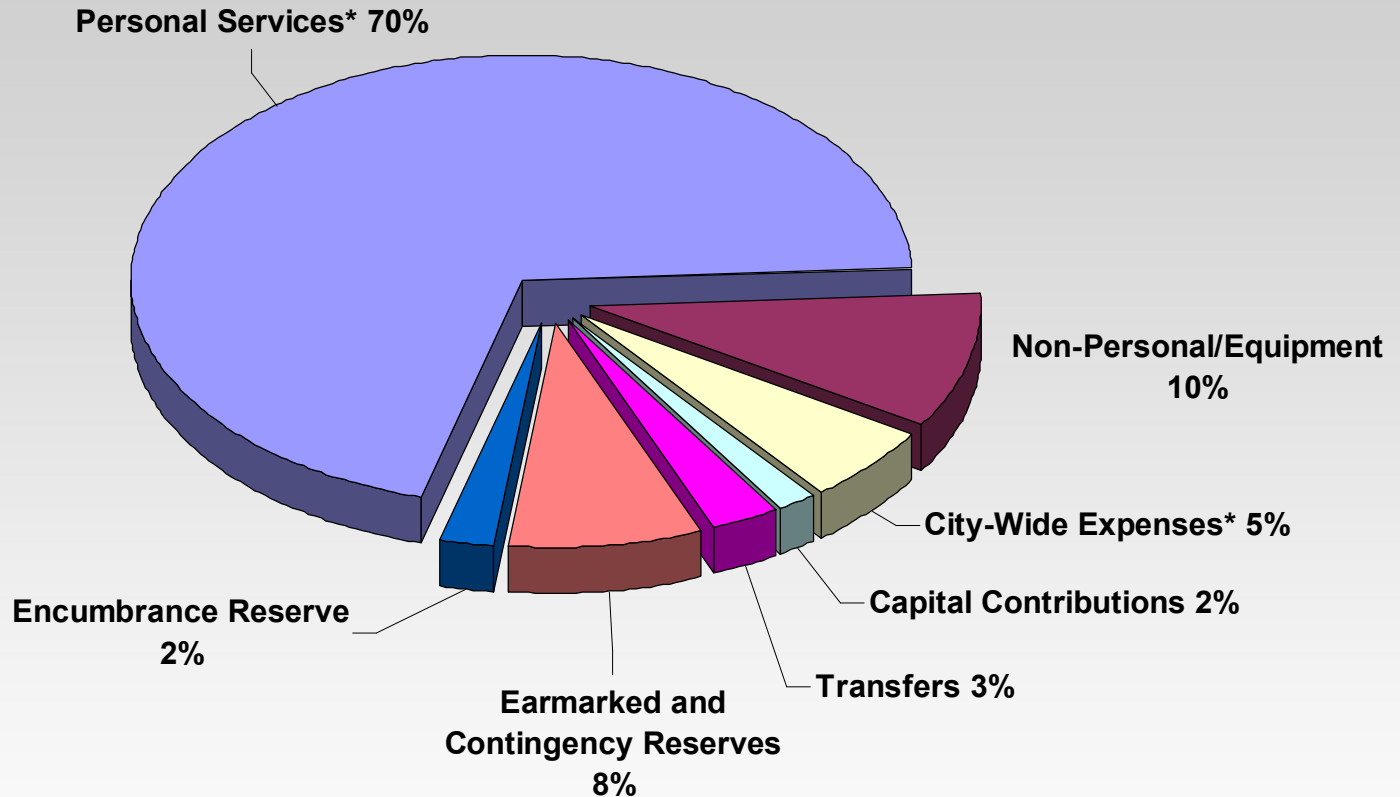
General Government Departments - provide for the overall management and administrative functions of the City, including Human Resources, Economic Development, Information Technology, Finance, Retirement Services, Independent Police Auditor, City Manager, City Auditor, City Clerk, Mayor and City Council, and City Attorney.

Non-Departmental - include city-wide expenses, capital contributions, transfers and reserves.



TOTAL GENERAL FUND USES \$934,008,927

2013-2014 Proposed Budget – General Fund Uses by Spending Category

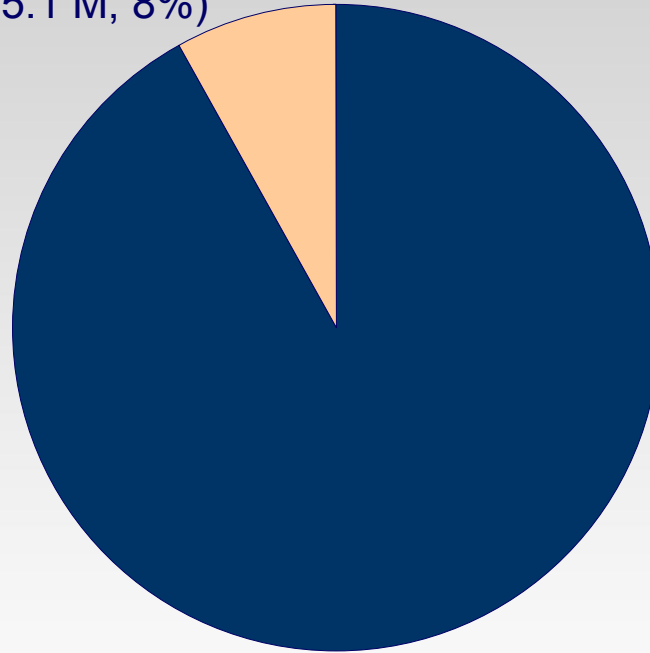


TOTAL GENERAL FUND USES \$934,008,927

* Although budgeted in City-Wide Expenses, Workers' Compensation Claims and Sick Leave Payments Upon Retirement are reflected in the Personal Services category as these are personnel-related costs.

2013-2014 Proposed Budget – Police Department General Fund Budget

Non-Personal/Equipment
(\$25.1 M, 8%)



Personal Services
(\$281.8 M, 92%)

TOTAL GENERAL FUND: \$306.9 million* (32.9% of total General Fund)

* 99% of the Police Department's budget is funded by the General Fund

Police Department Budget

Budget is Up, but Staffing is Down

The Police Department budget is up 9% from 2008-2009; however, the sworn staffing level is down 20% (285 positions) due primarily to rising personnel costs.

	2008-2009 Adopted	2013-2014 Proposed	% Change
Police Department General Fund Budget	\$281.1 M	\$306.9 M¹	9%
Sworn Positions ²	1,392	1,107	(20%)
Civilian Positions ³	438	476	9%
Total Police Department Positions	1,830	1,583	(13%)

¹ Does not include any compensation increases associated with the Employee Compensation Planning Reserve.

² Does not include 2-3 sworn positions in the City Attorney's Office

³ Of the net increase of 38 positions, 35 are recommended to be added in 2013-2014

Top Step Police Officer Profile

TOP STEP POLICE OFFICER ¹	ANNUAL		% Difference
	2008-2009	2013-2014	
BASE PAY ²	\$107,994	\$97,198	-10%
POST PAY-ADVANCED (7.50%)	\$8,100	\$7,290	-10%
UNIFORM ALLOWANCE (\$675/YR)	\$675	\$675	0%
TOTAL CASH COMPENSATION ³	\$116,769	\$105,163	-10%
RETIREMENT CONTRIBUTIONS ⁴	\$27,862	\$70,955	155%
HEALTH INSURANCE ⁵	\$12,626	\$14,828	17%
DENTAL INSURANCE (PPO) ⁵	\$1,077	\$1,161	8%
MISC.	\$2,301	\$1,761	-23%
TOTAL BENEFITS	\$43,866	\$88,705	102%
TOTAL PAY AND BENEFITS ⁶	\$160,635	\$193,868	21%

¹ From 2008-2009 Adopted 1% numbers and 2013-2014 Base 1% numbers, respectively; Police Officer Classification is eligible for Overtime

² Base Pay effective 6/28/09, including Holiday-in-Lieu (5.623%) and Anti-Terrorist Training Pay (5%) which were rolled into Base Pay in 2009

³ Does not include overtime or other premium pays an individual may receive.

⁴ City's Budgetary Contribution Rates (25.80% for 2008-2009; 73% for 2013-2014)

⁵ Assumes employee is enrolled in family health and dental.

⁶ Does not include value of paid sick leave and paid vacation leave

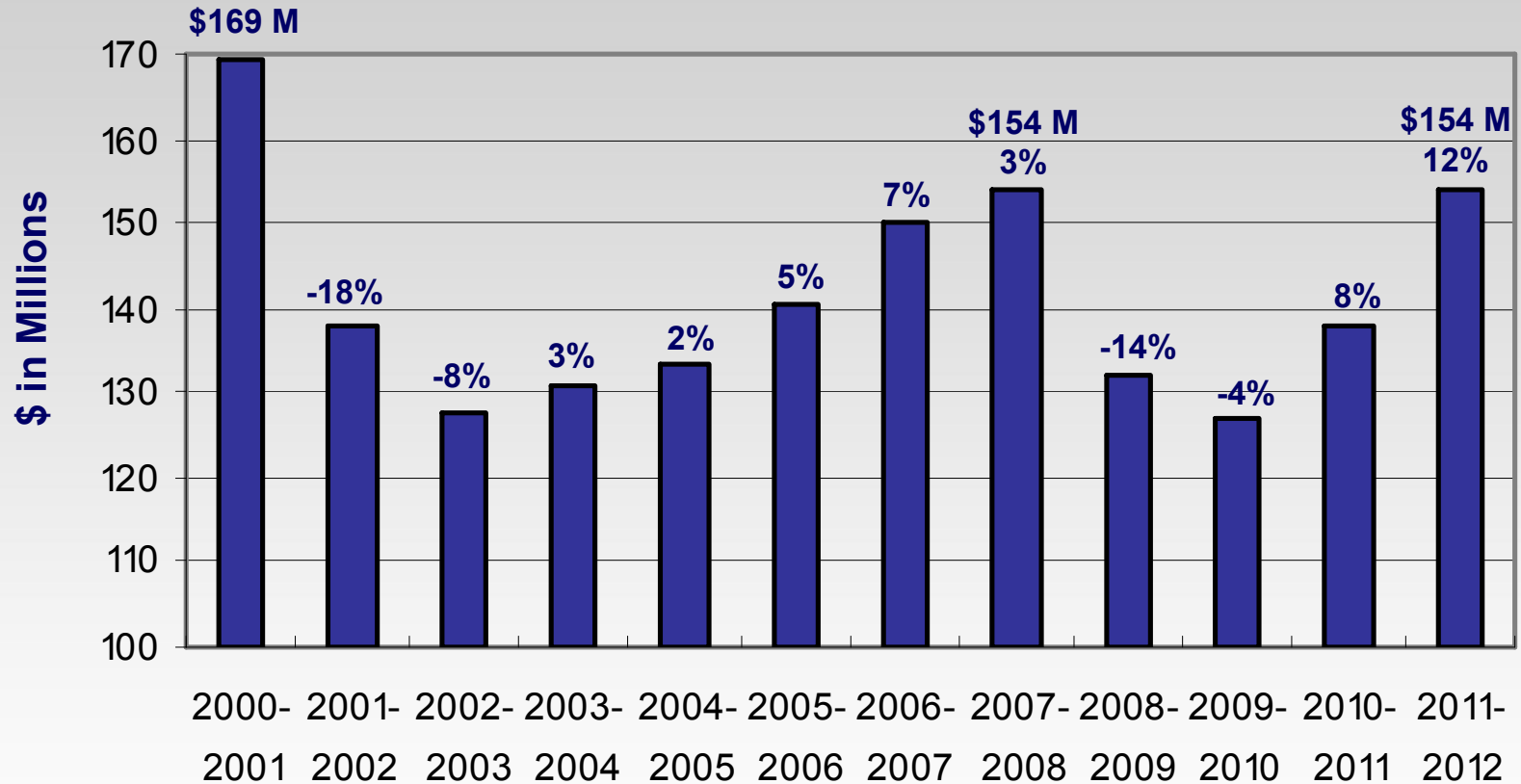
\$670 Million in Cumulative General Fund Shortfalls Balanced through 2012-2013

	Total General Fund Shortfall*	City-Wide Position Changes (All Funds)	City-Wide Positions (All Funds)
2002-2003	(\$ 46.3 M)	(36)	7,445
2003-2004	(\$ 92.1M)**	(205)	7,240
2004-2005	(\$ 81.7M)**	(426)	6,814
2005-2006	(\$ 58.0 M)	(115)	6,699
2006-2007	(\$ 34.9 M)	171	6,870
2007-2008	(\$ 19.9 M)	149	7,019
2008-2009	(\$ 29.6 M)	(7)	7,012
2009-2010	(\$ 84.2 M)	(362)	6,650
2010-2011	(\$118.5 M)	(783)	5,867
2011-2012	(\$115.2 M)	(440)	5,427
2012-2013	\$ 10.4 M	95	5,522
SUBTOTAL	(\$670.0 M)	(1,959)	
2013-2014	(\$ 2.6 M)	129	5,651
TOTAL	(\$ 672.6 M)	(1,830)	

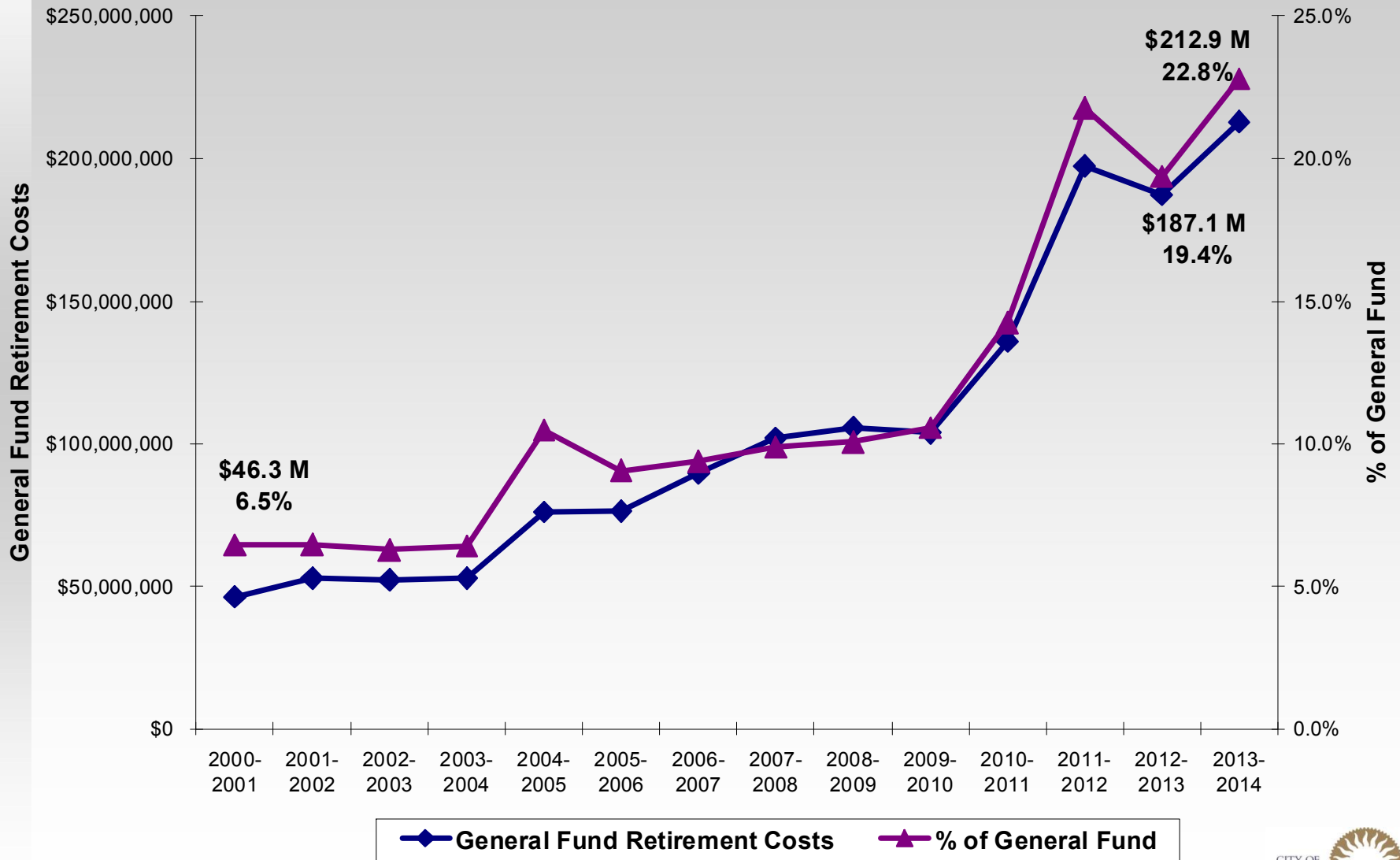
* Includes Development Fee Program impact

** Includes State impact of \$10.8 million in 2003-04 and \$11.4 million in 2004-05

General Fund Sales Tax History



General Fund City Retirement Cost History



2014-2018 General Fund Forecast

2014-2018 General Fund Forecast Incremental General Fund Surplus/(Shortfall)¹

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Incremental Surplus/(Shortfall)	(\$3.8 M) ²	(\$13.7 M)	\$2.0	(\$4.7 M)	(\$6.0 M)
% of Annual Budget	(0.21%)	(0.78%)	0.11%	(0.25%)	(0.31%)

- 1 Includes proposed Employee Compensation Planning Reserve, as well as salary steps for eligible non-management employees and management performance pay, and anticipated savings from first-year implementation of some elements of the Fiscal Reform Plan and Measure B retirement changes approved by voters in June 2012. Does not include impacts associated with elements of the Fiscal Reform Plan/Measure B that are not yet implemented; tax increment funding for the Successor Agency to the Redevelopment Agency, a public entity, regarding the outcome of litigation with the County of Santa Clara related to the PERS and Water District levies; costs associated with fully funding the annual required contributions for police and fire retiree health care; costs associated with restoration of key services funded on a one-time basis in 2012-2013; costs associated with the restoration of key services to January 2011 levels; costs associated with unmet/deferred infrastructure and maintenance needs; or one-time revenues/expenses.
- 2 This figure excludes the Development Fee Programs and was revised from the \$5.5 million shortfall presented in the February 2013 Forecast as a result of the continued analysis and updating of projected revenues and expenditures. With a surplus of \$1.2 million in the Development Fee Programs, the net General Fund shortfall addressed in the 2013-2014 Proposed Budget totals \$2.6 million.

2013-2014 Proposed Budget – General Fund Overview

- Addresses small \$3.8 million General Fund shortfall
(excludes the cost-recovery Development Fee Program surplus of \$1.2 million; the net General Fund shortfall totals \$2.6 million)
- Balanced approach to develop the Proposed Budget that focuses on the following goals:
 - Achieving budget and service level stability
 - Targeting investments to meet priority needs of the community
 - Continuing service-delivery efficiencies and cost reduction/revenue strategies
- Employee Compensation Planning Reserve of \$11.1 million (2%) to support modest compensation increases
- Contingency Plans to address uncertainty regarding outcome of litigation (\$33.5 million, of which \$22.7 million would need to be rebalanced ongoing)

2013-2014 Proposed Budget – General Framework and Policy Direction

- Mayor's March Budget Message as approved by the City Council (March 2013)
- Budget Balancing Guidelines contained in the City Manager's Budget Request as approved by the City Council (March 2013)
- Guiding Principles for Restoring City Service Levels as approved by the City Council (March 2012)
- City of San José Budget Principles as approved by the City Council (March/Sept. 2008)

Purpose of a Budget

- Complete financial plan of all City funds and activities for the ensuing fiscal year.
- Total of proposed expenditures shall not exceed the total of estimated revenues, fund balances, and reserves per the City of San José City Charter.
- Expenditure appropriation ordinances and funding sources resolutions approved by the City Council and monitored throughout the year for variances.
- Budget changes can occur throughout the fiscal year based on updated revenue and expenditure information.

One-Time vs. Ongoing Sources

One-time Sources: Revenues that cannot be relied on in future budget periods

- **Examples:** revenue spikes, budget savings, legal settlements, sale of property, grants, and similar nonrecurring revenues
- **Potential Uses:** non-recurring expenditures, such as infrastructure backlog, early retirement of debt, and rebuilding reserves

Ongoing Sources: Revenues that can reasonably be expected to continue year-to-year with some degree of predictability

- **Examples:** property tax, sales tax, and utility taxes
- **Potential Uses:** personal service costs, operating and maintenance costs of facilities, and program/service expenditures

2013-2014 Proposed Budget – New Ongoing Funded Services

	Ongoing \$ (in 000's)
Service Level Enhancements <ul style="list-style-type: none"> - Police Field Patrol Community Service Officers (21.0 positions) - Police Crime Prevention and Crime Analysis Staffing (4.0 positions) - Police Automated Field Reporting/Records Management System (1.0 position) - South San José Police Substation Opening (14.0 positions) - Microsoft Office Upgrade - Minimum Wage Ordinance Compliance (1.5 positions) - Senior Nutrition Program Meal Enhancements - Employment Services Staffing (1.0 position) - New Traffic and PRNS Operations and Maintenance (3.9 positions) - Anti-Graffiti Program 	\$5,717
Restoration of 2012-2013 One-Time Funded Services <ul style="list-style-type: none"> - San José BEST and Safe Summer Initiative (anti-gang) Programs (4.5 positions) - Senior Wellness and Transportation Services (1.5 position) - Medical Marijuana/Gaming/Public Safety CSA Oversight (8.0 positions) - Legal Support Staffing (2.0 positions) - City Clerk and Office of Employee Relations Labor Relations Staff (4.0 positions) - Parks, Recreation & Neigh. Services Volunteer Management Unit (1.25 positions) - Neighborhood Business Districts Support - Evergreen Community Aquatics Program 	\$3,146
TOTAL	\$8,863

Wage and Associated Fringe Increases (General Fund)

Employee Unit	1% Wage and Associated Fringe Increases	10% Wage and Associated Fringe Increases
POA	\$2,125,000	\$21,250,000
IAFF	1,279,000	12,790,000
Non-Management	1,496,000	14,960,000
Management	640,000	6,400,000
Unrepresented Non-Mgmt	1,000	10,000
Total	\$5,541,000	\$55,410,000

2013-2014 Proposed Budget – General Fund Service Reductions (\$55.4 million)

- **Parks, Recreation, and Neighborhood Services
Department (\$52 Million)** (But would be partially offset with
loss of fee revenue)
- **Library Department (\$26 Million)**
- **Transportation Department (\$27 million)**
- **Finance, Human Resources, and Information
Technology Departments (\$33 Million)**
- **Offices of City Attorney, City Auditor, City Clerk,
City Manager, and Independent Police Auditor
(\$28 million)**